

Congress to Consider Automaker Bailout Next Week (Bloomberg)

By John Hughes and Nicholas Johnston

Dec. 5 (Bloomberg) -- Congress will return next week to decide whether to bail out the auto industry to avert what some lawmakers said would be a disastrous collapse for the Big Three car companies.

The drive to rescue U.S. automakers gained momentum today, spurred by a grim jobs report cited as evidence that a wave of car company bankruptcies would plunge the economy into a deeper recession.

House Speaker Nancy Pelosi said \$25 billion in Energy Department funds for the development of fuel-efficient vehicles could be used to keep the automakers operating if there is a "guarantee that those funds will be replenished in a matter of weeks so as not to delay that crucial initiative."

She said she expects to bring legislation to the floor next week to provide "short-term and limited assistance" to the industry. The House plans to return to work on Dec. 9, and the Senate reconvenes a day earlier.

There is "broad consensus" to take action, House Financial Services Chairman Barney Frank said at a hearing of his committee. A report that U.S. companies slashed payrolls last month at the fastest pace in 34 years is increasing pressure on Congress to prevent the industry's collapse, he said.

"It's important that we do something," Frank told reporters after the hearing. "It is clear how badly the economy is now suffering. This is a terrible time to make things worse."

President George W. Bush said he is "concerned about the viability" of automakers and called on Congress to come up with an aid plan by next week. He added that "it's important that taxpayer money be paid back if any is given to these companies."

Automakers

General Motors Corp. Chief Executive Rick Wagoner, Chrysler LLC's Robert Nardelli and Ford Motor Co.'s Alan Mulally renewed their push to members of Frank's panel for quick action. Wagoner said GM needs \$10 billion and Chrysler seeks \$4 billion to keep from running out of cash by early next year.

Hurdles remain for a plan to keep GM and Chrysler from running out of cash, as members of Congress and the Bush administration disagree on a funding source.

Pelosi, a California Democrat, has demanded that the Bush administration tap a \$700 billion bailout fund for the financial industry. Bush and congressional Republicans are pushing to instead use the \$25 billion in Energy Department funds.

"Do I understand you that the failure of one of the Big Three or one of the major suppliers could bring the auto industry down altogether?" Representative Charles Wilson, an Ohio Democrat, asked Wagoner. "That's our view," Wagoner replied.

Restructure

Frank said he aims for legislation to keep the companies operating until March and include "mechanisms" to restructure the companies and the kinds of cars they produce. "We're in the stage of people talking to each other to see what could work in both houses," he told reporters.

Frank said he spoke about how to proceed with Democratic leaders, Representative Spencer Bachus of Alabama, the House committee's top Republican, and New York Federal Reserve Bank President Timothy Geithner, who is President-elect Barack Obama's choice for Treasury secretary. Senate Majority Leader Harry Reid is talking with Republicans, Frank said.

Bachus told reporters he backs a short-term loan "only when there is an agreement that there's going to be a fundamental restructuring" of the automakers.

Bachus said the House "absolutely" will meet next week and that he's "confident" Congress will act to help automakers. He said there's "one thing that neither the industry or the American economy can't take, and that's a liquidation."

"Unemployment";

Reid, a Nevada Democrat, said Congress must prevent the auto industry's collapse or "risk adding millions of more Americans to the unemployment line."

The Labor Department reported that last month's job cuts brought the losses so far this year to 1.91 million. The unemployment rate rose to 6.7 percent, the highest level since 1993.

GM today said it's reducing production next year at car plants in Ohio, Michigan, Kansas and Ontario, Canada, affecting 2,000 jobs. "This is all to adjust for the soft sales market," GM spokesman Chris Lee said in an interview.

Republican Representative Michael Castle of Delaware called the jobs report "a tremendous driver" of action on Capitol Hill. "The details are the problem; where does the money come from?" he said in an interview with Bloomberg Television, adding that the short-term loan plan is a "gleam of light";

\$14 Billion

Representative Paul Kanjorski, a Pennsylvania Democrat, said automakers may need as much as \$14 billion for 90 days to give the new Congress and the Obama administration time to devise a long-term solution. It would be a mistake for Congress to "play chicken and see the automotive industry go down," he said.

Representative Peter King, a New York Republican, said he would back aid if he's "reasonably convinced" it will bring about results. "The time for posturing is gone," he said.

The three automakers are asking for as much as \$34 billion in federal aid. The companies' leaders were trying to recover from their appearance before Congress two weeks ago when they were criticized for arriving in Washington in separate private jets to plead for funds. They left empty-handed.

Representative Gary Ackerman, a New York Democrat who faulted the executives for their private-jet use two weeks ago, said the scrutiny the automakers face was due to the rescue package Congress previously approved for the financial industry.

"We've given away almost \$1 trillion in taxpayer money with what we thought were some strings attached" in that plan, Ackerman told the auto chiefs. "You face the fury around here with the American public of having really no accountability for any of that money."

Take Half

Representative Thaddeus McCotter, a Michigan Republican, today proposed a compromise that would take half the auto aid from the financial industry package and the other half from Energy Department funds.

In an advertisement set to run Dec. 8 in the trade publication Automotive News, GM said it had “disappointed” Americans in recent years with its vehicle quality, design and reliance on trucks over cars. “We have paid dearly for these decisions” and are restructuring to be “viable for the long term” the ad said.

Credit-default swaps on GM bonds rose 2.8 percentage points to 82 percent upfront and 5 percent a year, CMA Datavision prices show. That means it costs \$8.2 million in advance and \$500,000 annually to protect \$10 million of GM bonds from default for five years. Credit-default swaps on Ford bonds rose 1.3 percentage points to 72 percent upfront and 5 percent a year.